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Report On Business®

Economic Decline Worsens in January; PMI Falls to 45.2%; Lowest Since Dec. 1982

JANUARY REPORT

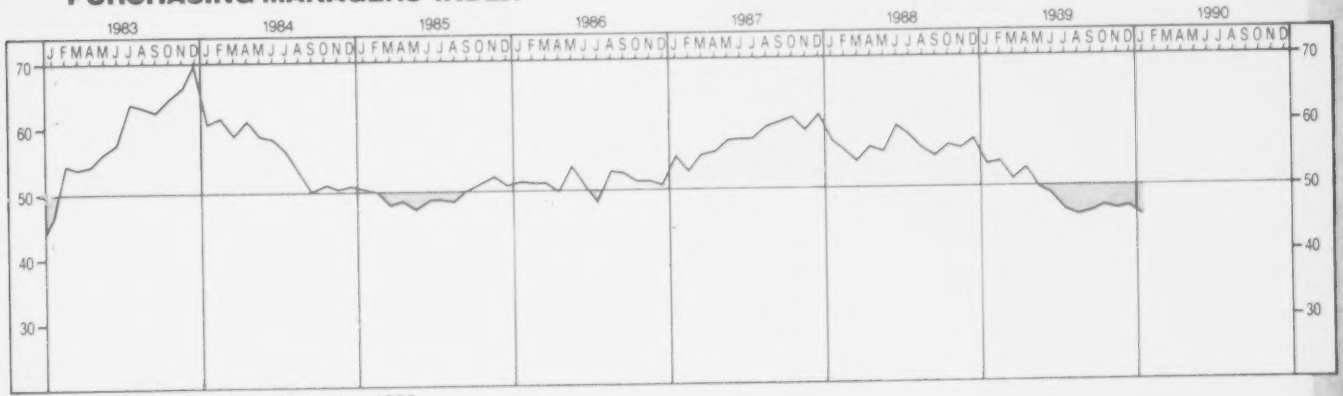
Analysis by the National Association of Purchasing Management Business Survey Committee; chair, Robert J. Bretz, C.P.M., director of materials management, Pitney Bowes, Inc.

The economy declined sharply in January for the ninth consecutive month, at the greatest rate of decline since December 1982, say the nation's purchasing executives in their latest **Report on Business**. All seasonally adjusted indexes from January 1988 to date were revised to accurately reflect the Department of Commerce annual adjustments to seasonalization factors. Please note adjustment in the following data. The Production index fell significantly in January and is at its lowest since December 1982. New Orders also registered a sharp decline from December. Employment declined for the 11th consecutive month and the Inventories index was the lowest since December 1986.

New Export Orders continued to show relative strength amidst the overall economic decline. Imports increased sharply from December. Prices declined for the eighth consecutive month but at the lowest rate since they began to decline in May 1989. Many of the items reported higher-priced and short in supply in January were the direct result of the record cold weather experienced in December and early January. Supplier Deliveries were faster for the ninth consecutive month although at the lowest rate since June 1989. (NOTE: The name Vendor Deliveries has been changed to *Supplier Deliveries* to more accurately reflect current usage within the purchasing profession.)

The **Report** was issued by Robert J. Bretz, C.P.M., chairman of the National Association of Purchasing Management's Business Survey Committee, and director of materials management at Pitney Bowes, Inc. Said Bretz, "The manufacturing economy entered 1990 on a dismal note: the greatest rate of decline since the second month of this lengthy economic recovery. All indicators in January confirmed the anemic condition of the economy, with the exception of New Export Orders, which continues to register relatively strong growth."

PURCHASING MANAGERS' INDEX



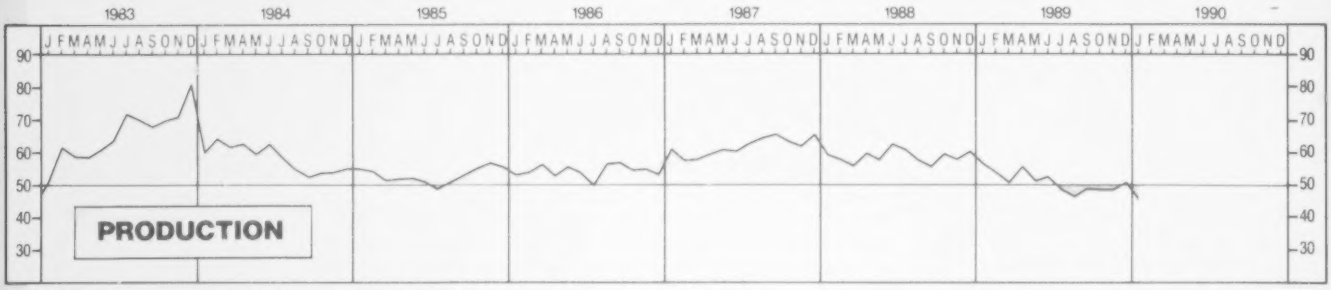
Peak — July 1981; Trough — November 1982.

PURCHASING MANAGERS' INDEX (PMI)

January '89	53.5	August '89	45.5
February '89	53.7	September '89	46.0
March '89	51.0	October '89	46.9
April '89	52.7	November '89	46.4
May '89	49.8	December '89	46.7
June '89	48.8	January '90	45.2
July '89	46.2		

The **Purchasing Managers' Index** (PMI) fell in January to 45.2%, down from 46.7% in December. Both numbers reflect an update by the U.S. Department of Commerce of the seasonal adjustment factors used to calculate the Purchasing Managers' Index as well as the diffusion indexes for all other indicators included in the January Report on Business. The New Export Orders index and the Imports index, which are not seasonally adjusted are an exception. A reading below 50 indicates that the manufacturing economy is generally declining; above 50, that it is generally expanding. Bretz added, "The PMI averaged a revised 48.9% for all of 1989. Based on past experience, this is consistent with real GNP growth of about 2.2% after adding the additional .6% to reflect the rebound in agricultural output in 1989 from the 1988 drought. Although the PMI would have to fall below 44% before indicating a decline in real GNP, the 45.2% PMI for January provides a weak foundation upon which to build the 1990 economy."

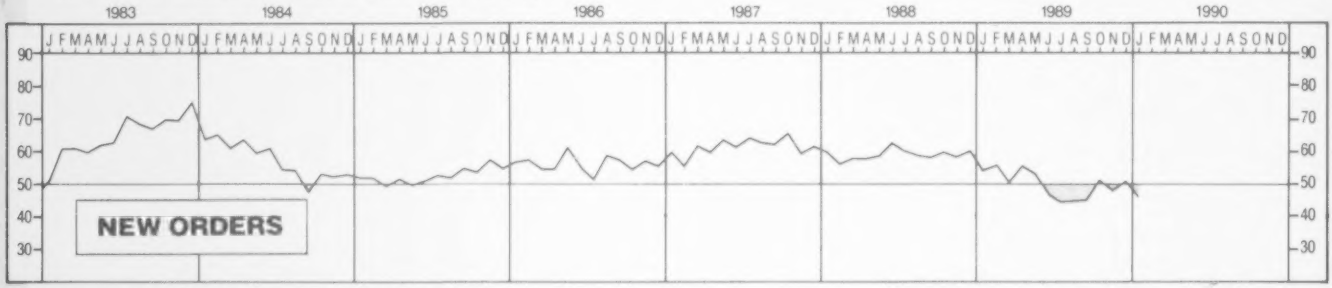
BUSINESS



Peak — July 1981; Trough — November 1982.

Production declined for the seventh consecutive month. The Production index dropped to 45.4%, significantly lower than the revised 48.4% in December and is the lowest since December 1982 (44.0%), when our current recovery began. However, a number of members indicated their production was curtailed in January as a consequence of record-setting cold weather conditions in December and early January.

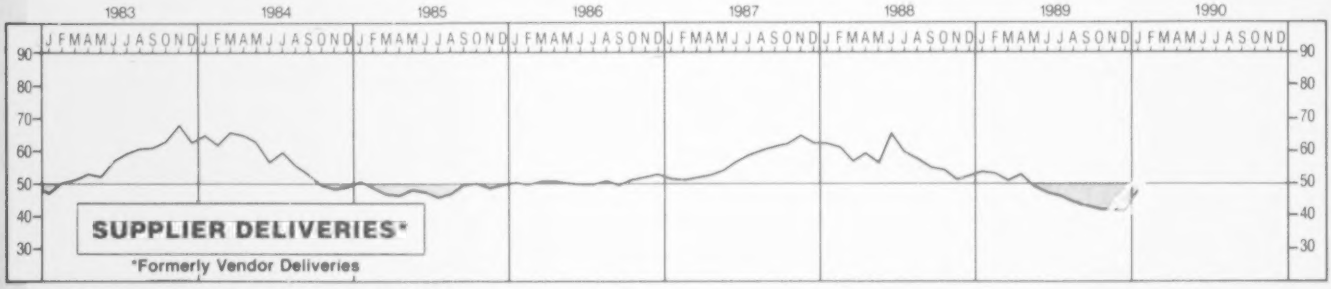
Production	%Better	%Same	%Worse	Net	Index
January	18	56	26	– 8	45.4
December	17	58	25	– 8	48.4
November	19	56	25	– 6	48.4
October	17	62	21	– 4	48.1



Peak — July 1981; Trough — November 1982.

New Orders declined in January for the eighth consecutive month. The New Orders index fell to 45.8%, down sharply from the revised 49.4% in December, and to the lowest since September 1989 (also 45.8%).

New Orders	%Better	%Same	%Worse	Net	Index
January	23	50	27	– 4	45.8
December	17	56	27	–10	49. 4
November	20	52	28	– 8	48.2
October	21	54	25	– 4	49.6



Peak — July 1981; Trough — November 1982.

Supplier Deliveries were faster in January, but at the lowest rate in seven months. The Supplier Deliveries index rose to 47.2%, up significantly from a revised 42.5% in December, and the most since June 1989 (47.6%). The higher index is a reflection of the difficulties encountered in production and transportation in January, caused primarily by extreme cold weather conditions in December and early January.

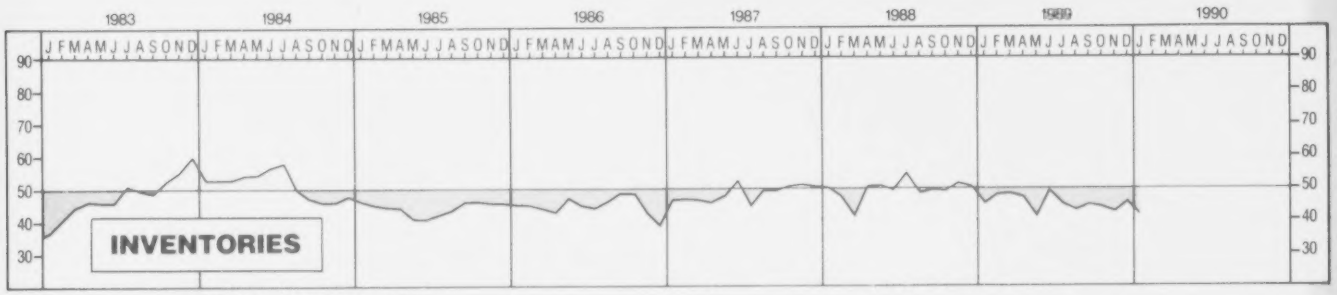
Supplier Deliveries	%Slower	%Same	%Faster	Net	Index
January	7	82	11	– 4	47.2
December	4	78	18	–14	42.5
November	5	75	20	–15	43.0
October	3	81	16	–13	42.9

IN SHORT SUPPLY

Bearings — 18th consecutive month; a consequence of anti-dumping suits; **Bleached Paperboard** — 19th consecutive month; **Caustic Soda/Soda Ash** — 32nd consecutive month (used heavily in paper-making, petroleum refining, and soap making); **Hydrogen Peroxide** — 2nd consecutive month (increasing demand exceeding supply because of switching from chlorine use by paper-makers to avoid dioxins; used as a bleaching agent and, in solution, as a topical cleansing agent and antiseptic); **Sodium Chlorate** — 8th consecutive month, increasing demand exceeding supply because of switching from chlorine use by paper makers to avoid dioxins (used heavily in paper-making and dyeing); **Titanium Dioxide** — 30th consecutive month; increasing demand exceeding supply because of switching from chlorine used by paper-makers to avoid dioxins (lead-free pigment used as a whitener in coatings, paints, paper, and other industrial applications); **Natural Gas** — Primarily as a consequence of record-setting cold weather; **Propane** — Primarily as a consequence of curtailed production caused by freezing weather conditions at Gulf Coast plants.

UP IN PRICE

Rhodium — Used heavily as an alloy with platinum and as a corrosion-resistant electroplate for protection of silverware from tarnishing; **Bearings** — 18th time in 19 months; **Acetone** — 2nd time in 4 months (a solvent for fats, oils, waxes, resins, rubber, plastics, lacquer, and varnishes); **Caustic Soda/Soda Ash** — 38th consecutive month, primarily as a consequence of lower demand for co-produced chlorine by paper makers (used heavily in paper-making, petroleum refining and soap making); **Methanol** — Some reports of lower prices (used heavily as a solvent and in synthesizing other chemicals); **Sodium Chlorate** — Primarily as a consequence of increasing demand exceeding supply because of switching from chlorine used by paper makers to avoid dioxins; **Freon** — 3rd consecutive month (used as a refrigerant); **Nylon**; **Gasoline**; **Diesel Fuel**; **Fuel Oil** — 4th consecutive month;



Peak — July 1981; Trough — November 1982.

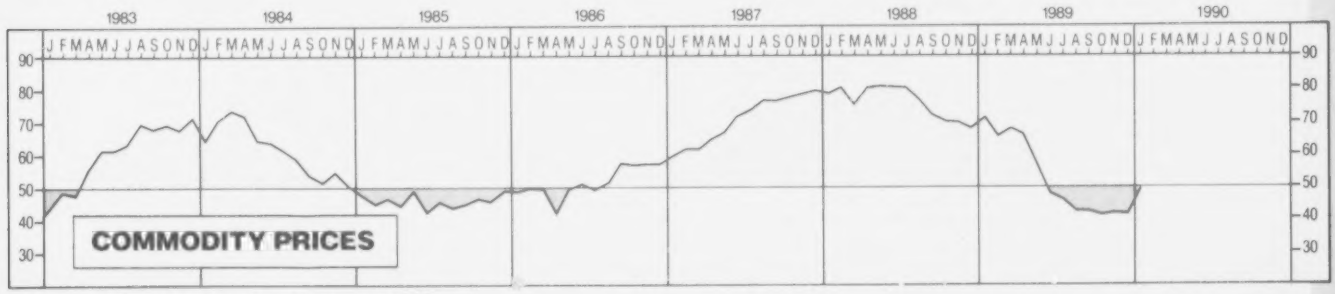
Inventories declined in January for the 13th consecutive month at the fastest pace in over four years. The Inventories index fell to 41.8%, sharply lower than the revised 44.5% in December, and the lowest since December 1986 (38.4%). Purchasers responded to sharply lower production by promptly reducing inventory.

Inventories	%Higher	%Same	%Lower	Net	Index
January	14	56	30	−16	41.8
December	15	55	30	−15	44.5
November	13	53	34	−21	42.8
October	13	60	27	−14	44.5

Peak — July 1981; Trough — November 1982.

Employment declined for the 11th consecutive month in January. The Employment index slipped to 44.1%, down from a revised 44.9% in December and the lowest since November 1986 (42.2%). A number of members reported workforce reduction programs in place through layoffs, hiring freezes, and attrition.

Employment	%Higher	%Same	%Lower	Net	Index
January	8	71	21	−13	44.1
December	8	69	23	−15	44.9
November	12	65	23	−11	45.4
October	10	70	20	−10	45.3



Peak — July 1981; Trough — November 1982.

Prices declined in January for the eighth consecutive month although at an appreciably lower rate. The Price index rose to 49.7%, up substantially from a revised 42.7% in December and the highest since May 1989 (57.5%). Purchasers noted that a number of the 16 items reported up in price were related to shortages caused by record-setting low temperatures in late December and early January.

Prices	%Higher	%Same	%Lower	Net	Index
January	24	56	20	− 4	49.7
December	10	63	27	−17	42.7
November	10	64	26	−16	43.1
October	10	64	26	−16	42.7

Natural Gas — 4th consecutive month; **Propane** — Primarily as a consequence of curtailed production caused by freezing weather conditions at Gulf Coast plants; **Milk/Milk power** — 3rd time in 4 months; a consequence of increased demand for dairy products, fewer dairy cows, exceptionally higher government exports of nonfat dry milk and very low import quotas of nonfat dry milk (used in food processing); **Orange Juice** — After being reported down in price in December 1989 for 2 consecutive months; **Sugar** — 3rd consecutive month.

DOWN IN PRICE

Aluminum — 10th consecutive month; **Aluminum Products** — 3rd consecutive month; **Copper** — 3rd consecutive month; **Magnesium** — Used heavily as a constituent of light alloys for manufacturing precision instruments; **Nickel** — 8th consecutive month (used heavily in making stainless steel, plating metals, and batteries); **Steel** — 5th consecutive month; **Steel Scrap** — 3rd consecutive month; **Stainless Steel** — 2nd consecutive month; after being reported up in price for the 15th time in 20 months in July 1989; **Zinc** — 8th time in 9 months (used heavily in metal alloys and as a protective coating for metal); **Printing Paper** — 6th time in 7 months; **Alcohols** — After being reported up in price in April 1989 (used as a solvent in laboratories and in industries); **Chlorine** — 5th time in 10 months; primarily a consequence of lower demand by paper-makers switching to alternatives to avoid dioxins while demand for co-produced caustic soda continues (used heavily in bleaching paper and fabrics, purifying water and in making synthetic rubber, plastics and other chemicals); **Ethylene Derivatives** — 2nd consecutive month; **Methyl Ethyl Keytone (MEK)** — 5th time in 11 months (used heavily as a chemical solvent in surface coatings and in making resins); **Phenol** — 6th time in 8 months (used heavily in making phenolic resins); **Plastic Silicon** — 2nd time in 5 months (used heavily in making transistors, diodes, and semiconductors); **DRAMS** — 5th time in 9 months (dynamic electronic memory devices used heavily in computers).

Report On Business®

BUYING POLICY

Lead times for Capital Expenditures lengthened slightly in the important 6 months or longer category. The number of members reporting lead times of 6 months or longer was 51%, up slightly from 50% in December but still down from 52% in the two previous months.

Lead times for Production Materials were virtually unchanged in January. The number of purchasers reporting lead times of 30 days or less rose to 58%, up slightly from 57% in December and 53% in November.

Lead times for Maintenance, Repair, and Operating (MRO) Supplies lenghtened. The number of members reporting lead times of 30 days or less fell to 86%, down from 90% in December, which was the most since May 1986 (also 90%).

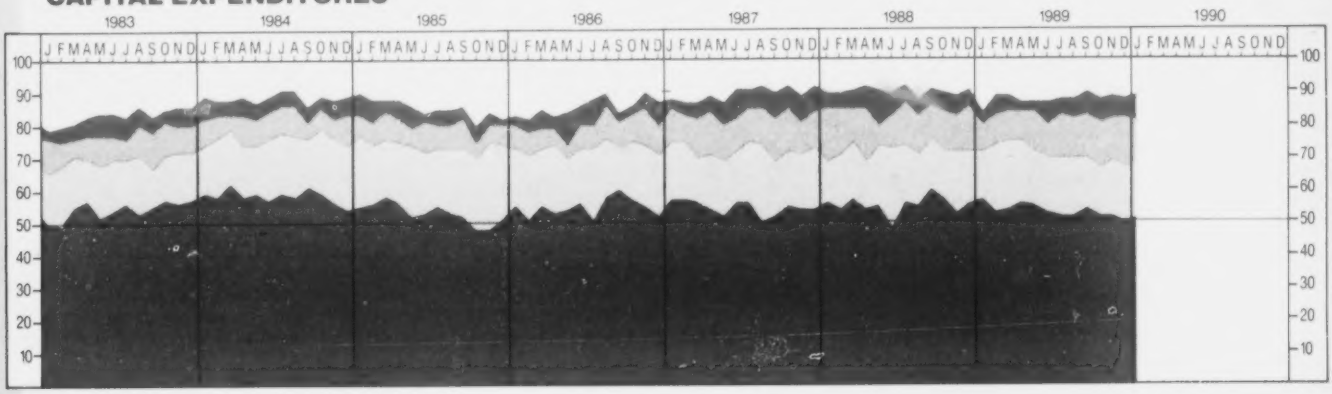
PERCENT REPORTING

Capital Expenditures	Hand to Mouth	30 Days	60 Days	90 Days	6 Mos. and Longer
January	11	8	13	17	51
December	11	6	15	18	50
November	11	7	13	17	52
October	12	7	14	15	52

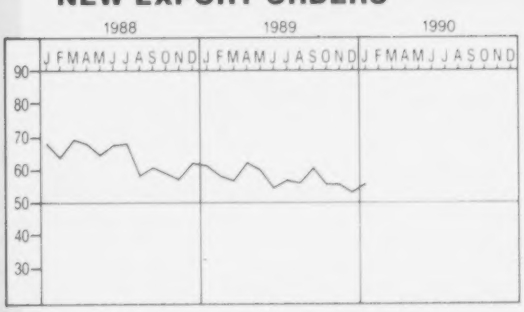
Production Materials	Hand to Mouth	30 Days	60 Days	90 Days	6 Mos. and Longer
January	17	41	25	11	6
December	17	40	27	13	3
November	18	35	28	14	5
October	17	38	28	14	3

MRO Supplies	Hand to Mouth	30 Days	60 Days	90 Days	6 Mos. and Longer
January	41	45	11	2	1
December	42	48	7	3	0
November	42	43	12	2	1
October	42	47	10	1	0

CAPITAL EXPENDITURES



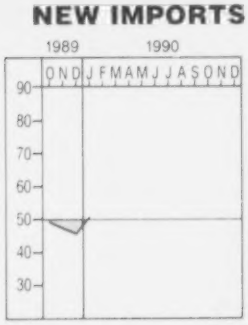
NEW EXPORT ORDERS



Of the 73% of members exporting, 17% reported better Export Orders, up from 15% last month. The 6% reporting worse Export Orders is down from 9% in December. The seasonally unadjusted New Export Orders index increased to 55.5%, up from the 53% in December, the same rate of growth as in October and November 1989.

	%Better	%Same	%Worse	Net	Diffusion Index	%Exporting
January	17	77	6	+11	55.5	73.0
December	15	76	9	+ 6	53.0	72.0
November	16	79	5	+11	55.5	69.4
October	19	73	8	+11	55.5	73.0

NEW IMPORTS



Of the 82% of members importing, 12% reported higher Imports, up sharply from 5% in December, while 11% reported lower Imports. It is a reversal of three consecutive months of lower indexes. The seasonally unadjusted Imports index increased to 50.5%, up from 45.5% in December and the highest in the four-month history of the index.

	%Better	%Same	%Worse	Net	Diffusion Index	%Exporting
January	12	77	11	+1	50.5	82.0
December	5	81	14	−9	45.5	78.2
November	8	78	14	−6	47.0	76.4
October	10	78	12	−2	49.0	73.0

DATA AND METHOD OF PRESENTATION

The **Report on Business** is based on data compiled from monthly replies to questions asked of purchasing executives in over 300 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state, and by Standard Industrial Classification (SIC) category, based on each industry's contribution to Gross National Product (GNP). Twenty industries in 50 states are represented on the committee.

Survey responses reflect the change, if any, in the current month compared to the previous month. For each of the indicators measured (New Orders, Production, Supplier Deliveries (formerly Vendor Deliveries), Inventories, Employment and Prices), this report shows the percentage reporting each response, the net difference between the number of responses in the positive economic direction (higher, better and slower for Supplier Deliveries), and the negative economic direction (lower, worse and faster for Supplier Deliveries), and the diffusion index.

The charts provide a basis for comparing current data with historical patterns.

Responses are raw data and are never changed. The diffusion index includes the percent of positive responses plus one-half of those responding the same (considered positive). The resulting single index number is then seasonally adjusted to allow for the effects of repetitive intra-year variations resulting primarily from normal differences in weather conditions, various institutional arrangements and differences attributable to non-moveable holidays.

All seasonal adjustment factors are supplied by the U.S. Department of Commerce and are subject annually to relatively minor changes when conditions warrant them. The Purchasing Managers' Index (PMI) is a composite index based on the seasonally adjusted diffusion indexes for five of the indicators (New Orders, Production, Supplier Deliveries, Inventories and Employment) with varying weights applied.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change and the scope of change. An index reading above 50% indicates that the economy is generally expanding; below 50%, that the economy is generally declining. The distance from 50% is indicative of the strength of the expansion or decline.